TAX COLLECTION PRACTICES IN TANZANIA: PERSPECTIVES FROM KINONDONI MUNICIPALITY

By

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A Dissertation Submitted in Partial Fulfillment of the Requirements for Award of the Degree of Master of Business Administration (MBA) of Mzumbe University

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CERTIFICATION

We, the undersigned, certify that we have read and hereby recommend for the acceptance by the Mzumbe University, a dissertation entitled **Tax Collection Practices in Tanzania: A Case of Kinondoni Municipality**, in partial fulfillment of the requirements for award of the degree of Master of Business Administration of Mzumbe University.

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I, **Brazio Simfukwe,** declare that this dissertation is my own original work and that it has not been presented and will not be presented to any other university for a similar or any other degree award.

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DEDICATION

I, dedicate this work to my wife in a way that cannot be forgotten due to their vital responsibility of forming, directing and influencing me in all circumstances to get my education.

ABBREVIATIONS AND ACRONYMS

ADP	-	Agricultural Development Programme
CHC	-	Community Health Care
DAP	-	District Annual Plan
IFIs	-	International Financial Institutions
IMF	-	International Monetary Fund
LGAs	-	Local Government Authorities
MTEF	-	Medium Term Expenditure Framework
NAADS	-	National Agricultural and Advisory Services
NBFP	-	National Budgeting Framework Paper Process
PEAP	-	Poverty Eradication Action Plan
SSA	-	Sub-Saharan African
VAT	-	Value Added Tax

ABSTRACT

The study on tax collection tax collection practices in Tanzania was conducted at Kinondoni Municipality. The objectives of the study were; to identify methods used to collect revenue; to examine the contribution of tax on poverty alleviation and to determine challenges in tax collection. A case study design was used, a sample of 63 respondents was involved. Data collection methods were interview and documentary analysis whereas data collection instruments were questionnaire, interview guide and documentary analysis schedule. Data were analyzed by using SPSS.

The study found the study found majority of the respondents (61.7%) identified Flat rate property tax system as the major method for collection of tax revenue. Also, the study found tax collection play significant role on availability of social services. Moreover, the study found majority of the respondents (50.8%) identified the provision of tax education will improve tax collection.

The study concluded that there are various methods used in collecting tax. These involve outsourcing revenue collection and flat rate property tax system. Also, the study concluded that Tax collection play significance role in alleviating poverty. Tax collection facilities, availability of social services, promote equality and financial support. Finally, the study concluded that to improve tax collection, there is a need to provide education to tax payer, train tax collectors and computerize tax collection system. The study recommended that, there is a need to train revenue collectors, the authorities should be further sensitized about their role. For example through seminars, and others should be given scholarships by the municipal to go for further studies and acquire more skills. This will help to check on inefficiency due to inadequate education.

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CHAPTER ONE

INTRODUCTION

1.1 Introduction

This chapter presents introduction of the study. The first section of the chapter gives background of the study whereas statement of the problem is explained in section two. Section three gives objectives of the study while research questions are provided in section four. Section five discusses significance of the study, the last section of the chapter gives scope of the study.

1.1 Background of the Problem

Domestic resource mobilization fulfils two key objectives sought by developing countries predictable and sustainable financing on the one hand and a reduction in long-term dependence on aid on the other (Dollery, 2005; Mullins, 2004). Tax resources allow a state to finance itself without resorting to printing money or foreign indebtedness. They, therefore, hold the key to economic stability; enabling investment in infrastructure, proactive social policies, and the accumulation of savings. These savings can then be used to build the resilience of the most vulnerable sections of the population in times of recession (Zaman, 2000).

Tax is often seen as the most powerful means of sourcing revenue to the Government in order to finance economic activities and uplift the living standard of its citizens (Abelson, 2012). Therefore, if tax is well managed, it will have some impact on the states development as in the poverty alleviation, among others. Tax management in this context refers to the way and manner in which the board of internal revenue is able to raise the expected amount of revenue and manage it to the extent that at the end will have an impact on the economic growth. The government as part of its effort to ensure that citizens a good life does make provisions for contingency (that is unforeseen circumstances). At the state level there is such a provision. For example, as part of government effort to see that, people live a better life, introduce Poverty Alleviation Programme to see that people living below poverty line are assisted to live above poverty line. When government provided capital to poor ones, especially rural dwellers, then, the economic growth will be enhanced, because people will engage in various activities looking for how to survive without waiting for any body to assist them. Therefore, tax generated will play a significant role if it is well managed (Rodrik, 2010).

Effective tax collection play significant role in poverty alleviating (Pradeep, 2011). In fact, it is one of the primary tools available to governments to reduce the socio-economic inequality that ultimately affects growth and overall productivity and is a hazard to both rich and poor. Local governments rely on decisions and arrangements made at the national level for the transfer or reallocation of national taxes, such as VAT and personal income tax, down to the local level. The influence of national policies on local fiscal policy is therefore a key element in the funding of basic social services and the fight against poverty and inequality

Kinondoni District faced intense challenges in delivering services to the people. This was because of low revenue collected due to the hostility of the people towards the payment of taxes and the District having no control over the conditional and donor grants. Revenue collected from sources such as trading licenses, market dues, fines, and fees was also declining tremendously to be effectively utilized to provide the required services to the public. This can be evidenced from the various deficit financial budgets of the District for the past three years, which means that the estimated expenditures are more than the estimated incomes hence a hindrance to effective service delivery (Emezi, 2003).

1.2 Statement of the Problem

Despite the importance of taxation to development and poverty alleviation, LGAs have paid little attention to it (USAID, 2007). Majority of the LGAs receive unsatisfactory tax collection results to services delivery failure. Despite the reforms, tax systems in Tanzania is still characterized by too many taxes with too many legal loopholes, which both taxpayers and tax administrations find difficult to manage. These inefficiencies may reflect the excessive power of tax administrations and public officials when deciding on exemptions and the outcome of tax assessments (Robert, 2011).

Taxation plays a greater role in generating revenue to the nations' development and not only that, revenue collected facilitates formation of policies and programs in poverty alleviations. Many local governments Authorities in Tanzania have reformed their tax collection systems in recent years, these results to increases in revenue collection (REPOA, 2012). But, communities are still facing a numerous difficulties in access to basic goods and services from local governments Authorities (Pradeep, 2011). Majority of the citizens are, in general, not satisfied with health, schools and other social services (REPOA, 2008).

1.3 Objectives of the Study

Generally, the study intended to investigate tax collection practices in Kinondoni Municipality. Specifically, the study intended

i. To identify methods used to collect revenue in kinondoni municipality
ii. To examine the contribution of tax on poverty alleviation to the community
iii. To determine challenges in tax collection in kinondoni municipality

1.4 Research Questions

The main research question was; what are tax collection practices in Kinondoni municipality?

The study was guided by the following specific questions:

i. What are methods used to collect revenue?
ii. What are the contributions of tax on poverty alleviation?
iii. What are the challenges in tax collection?

1.5 Significance of the Study

The study may provide information on tax collection practices in Tanzania. Therefore, policy makers may be informed of the basis of making decisions and giving directive concerning the role of tax collection in Tanzania.

The study will add on to the existing literature on tax collection practices. This will assist other researchers and provide ground for the development of researches and other readers.

The study is inline with Big Result Now initiatives as it seek to provide the role of tax collection on poverty alleviation. The study examined the contribution of tax on poverty alleviation and find out strategies that can improve tax collection.

1.6 Scope of the Study

The study was conducted in Kinondoni Municipality; the study cover tax officials and tax payers. A sample of 120 respondents was used. The study come up with methods that are used in tax collection, the contribution of tax on poverty alleviation and challenges in tax collection.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter presents literature review of the study. The chapter contains theoretical and empirical literature review. The first section of the chapter gives definition of the key terms whereas overview of the concept of poverty is discussed in second section. The last section of the chapter gives conceptual framework.

2.2 Definition of key Terms

This section gives definition of the key terms. The part provides operational meaning of the term taxation whereas part two gives the meaning of tax payer. The last part of this section provides the meaning of poverty.

2.2.1 Taxation

Taxation encompasses the process through which government implements the tax regulations and laws in order to benefit from its application. Taxation is not only an instrument of raising revenue for government, but also a tool for administering social justice (Zeller *et al.,* 2013). Taxes are compulsory contributions imposed by public authority, irrespective of the exact amount of service rendered to the taxpayer in return. Taxation as the name suggests is an important source of revenue to government of any nation. According to Pitt *et al.,* (2012) taxation is a compulsory levy made to eligible individuals and corporate bodies by government for them to render services to the citizens.

2.2.2 Tax Payer

An individual or entity that is obligated to make payments to municipal or government taxation agencies (Abelson, 2012). The term taxpayer generally describes one who pays taxes. Taxes can exist in the form of income taxes as required by Federal and state governments and property taxes imposed on owners of real property (such as homes and vehicles) by municipal governments, along with many other forms (Mullins, 2004).

2.2.3 Poverty

Poverty at its broadest level can be conceived as a state of deprivation prohibitive of decent human life (Tinker and Summer, 2000). This is caused by lack of resources and capabilities to acquire basic human needs as seen in many, but often mutually reinforcing parameters which include malnutrition, ignorance, prevalence of diseases, squalid surroundings, high infant, child and maternal mortality, low life expectancy, low per capita income, poor quality housing, inadequate clothing, low technological utilization, environmental degradation, unemployment, rural-urban migration and poor communication (Rodrik, 2010). Poverty is caused by both internal and external factors. Whereas the internal causes can be clustered into economic, environmental and social factors, the external causes relate to international trade, the debt burden and the refugee problem (Peter, 2008).

2.3 Theoretical Literature Review

This section provides theoretical literature in relation to the study. The first part of the chapter gives standard tax theory to support the study. Moreover, the chapter contains description of the different concepts in line with the study objectives.

2.3.1 Standard' Tax Theory

The central objective of much tax theory is to identify which taxes, and rates of tax, will lead to maximum social welfare and reduce poverty (or, more usually, minimize welfare losses). This usually means identifying which taxes minimise distortions to economic behaviour. Key preoccupations are whether this will be achieved with direct or indirect taxation, and whether or not tax rates should vary across households and/or goods. The usual approach is to assume that, in the absence of taxes, the economy is Pareto efficient (competitive markets, no externalities), that the government can tax both directly and indirectly, and is capable of making lump-sum payments to households. Under this condition tax can play significant role in poverty alleviation (Zaman, 2000).

This allows redistribution to be dealt with via a combination of transfers and income taxes, so that commodity taxes can be focussed on efficient revenue rising only. If raising a given amount of revenue is the only objective in setting indirect taxes, then how these tax rates should be set uniformly or non-uniformly depends on whether or not factors (labour and capital) are in fixed supply (or equivalently, the consumption of commodities is independent of factor supply). Where factors are fixed (there is no work-leisure trade-off), the incidence of commodity taxes will be shifted back to those factors rather than shifted forward to consumers via price increases. In this context, uniform taxes ('tax neutrality') will keep relative prices fixed and so ensure no change in tax incidence. In this fixed factor world, it does not matter whether taxes are levied on production and imports or consumption. If there are intermediates, then uniform taxes should simply be based on value added rather than output (Tinker and summer, 2000).

Where factor supplies are not fixed, theory suggests non-uniformity. For example, with work-leisure choices, leisure is analogous to a commodity that cannot be taxed, and tax theory shows that higher tax rates should apply to those goods complementary with leisure, and lower rates on leisure substitutes. Mullins, (2004), shows that tax facilitate poverty alleviation through distribution of good and social services. Also, tax provide equal income distribution. It may also be appropriate to tax inputs used intensively in the production of untaxed goods.

Heady argues that, if the only non-taxable good is leisure (as is typically supposed in developed countries), there is only a weak case for non-uniformity, provided governments are able to make uniform income transfers to all households. This can be achieved, for example, through a uniform income tax exemption. Thus, in developed countries, even with variable labour supply, the 'tax neutrality' argument appears strong. Externalities associated with some goods (such as alcohol, tobacco, fuel consumption, education) remains the only basis in this framework for advocating nonuniform taxes (or subsidies) on such goods (Tinker and summer, 2000).

2.3.2 Overview of the Concept of Poverty

Poverty has been a serious challenge to governments in Tanzania. Its effect which includes lack and deprivation in the basic necessities of life is worrisome, the condition will be worst if fuel subsidy removal stands still. Therefore, capacity to raise taxes and manage it is one of the core foundations of both economic growth and political development. At independence in 1960 and for the best part of the 1960s, poverty eradication efforts in Tanzania centered on education, which was seen as the key to economic, technological and intellectual development of the nation (REPOA, 2008).

The causes of this state of poverty in the country had variously been traced to, among other factors: Corruption, bad governance, debt overhang, unemployment, low productivity, burgeoning population growth, globalization, unfocused government policies, and lack of effective skills training, among others. The tax regime is critical for poverty alleviation in private and public sector development, economic growth and poverty alleviation among others. The share of tax revenue in GDP for the lowest income countries about around 16-18%, rising to about 20% for countries with per capita incomes of $1,500 and exceeding 40% in many high income countries (USAID, 2007).

Poverty is an issue that needs special attention by the government of any state. It is for this reason the current Tanzania government policy against poverty is tailed towards enabling the poor and more vulnerable sections of the society to achieve sustainable livelihood. The approach is to economically empower communities, families, and individuals through a sustained, well coordinated and comprehensive programme of poverty alleviation. On-going government activities related to poverty have been regularly featured in the National Rolling Plan beginning with the 1990-1992 Plan. They include programmes such as: economic programmes for the empowerment of women; Community Health Care (CHC) programme, whose purpose is to bring health care, particularly preventive health care to the grass roots of the Tanzanian Society; establishment of the Agricultural Development Programme (ADP) in all States of the Federation; establishment of the People's Bank, aimed at extending small credits to people in the informal sector of the economy with the aim of strengthening informal economic activities, cities, towns and villages (Rodrik, 2010).

Therefore, Zaman, (2000) said, an appropriate poverty strategy should: provide all persons with the opportunity to earn a sustainable livelihood; implement policies and strategies that promote adequate and sustainable levels of funding, and focus on integrated human development policies, including income generation, increased local control of resources, local institution strengthening capacity-building, greater involvement of non-governmental organizations and local levels of government as delivery mechanisms; develop all poverty-stricken areas through integrated strategies and programmes of sound and sustainable management of the environment, resource mobilization, poverty eradication and alleviation, employment and income generation; create a focus in National development plans and budgets on poverty alleviation in human capital, with special policies and programmes directed at rural areas, the urban poor, women, and children; establish appropriate infrastructure and support system to facilitate the alleviation of poverty by implementing projects, programmes, enterprises, and life styles sustainable at the grass roots level.

2.3.3 Poverty Alleviation

The act of reducing the scourges such as joblessness, illiteracy, landlessness, homelessness, lack of adequate capital, facilities and food to earn a decent living and also powerlessness of an individual or community (Robert, 2011).

According to Dollery, (2005), the UKs 2006 White Paper on development recognizes that tax plays an essential role for better political governance without which economic growth is unlikely to be sustainable. It is a core part of the social contract between citizens and the state: it can help build legitimacy through domestic accountability and good public financial management and funding the delivery of core services to citizens, or undermine it when associated with state capture and corruption (which diminish tax revenues and deter private poverty alleviation) (Robert, 2011).

Administrative efficiency requires that cost of collection should not be higher than the revenue raised. This is with the expectation that the collection of tax should be economical, efficient and effective. According to Caulfield (2000), the available records in Nigeria have been put the cost between 1% and 1.5% at the federal level. Indeed, it was however reported that the cost is between 5% and 7.5% in Ghana, which shows that the Nigerian tax administration is relatively efficient at federal level.

However, Zaman, (2000) explains that people at the lower level and workers in the formal sector are among the ones that pay taxes because it is deducted at source. One main point to look at is the importance of a sound legal structure for effective tax administration.

2.3.4 The Relationship between Revenue Collection and Service Delivery

The relationship between revenue collection and service delivery can be clearly portrayed by various rules and regulations governing the Local Governments. Published reports as well as some tools for integrated planning such as the Local Government act, 1997, the Local Government financial and accounting regulations, 1998, Compliance with national priorities (Carnegie and Baxter, 2006). The Local Government budget framework paper, Linkage between the Local Government budget framework paper and annual work plans as explained below:-

Local Governments budgetary powers laid down in the Local Governments Act, 1997, Section 78(1), which states that Local Governments shall have the right and obligation to formulate, approve and execute their budgets and plans provided the budgets should be balanced. The Act further states that no appropriation of funds by a Local Government can be made unless approved in a budget by its council (Carnegie and Baxter, 2006).

Thus the Local Government budget, including the explanatory notes, constitutes the decisive financial management tool as it forms the legal and operational basis for the implementation of the policies set by the council in order to deliver services to the public. Without an approved budget or vote on account, the administration may not collect revenue nor incur expenditure, and any deviation from this rule may call for appropriate legal action by the relevant stakeholders. The Local Government Act provides that the Local Government budget shall reflect all revenues to be collected or received by the Local Government, and to be appropriated for each year (section 78, sub-section 4). In this way a Local Government serves as an administrative management instrument providing detailed information about revenues to be collected and the expenditures to carry out the projects and activities set by the council hence effective service delivery (Johnson and Rogaly, 2011).

The Local Government financial and accounting regulations, 1998 make up the principal financial management framework for Local Governments. The Local Government financial and accounting regulations translates the Local Government act, as far as financial management provisions are concerned, into operational guidelines and provides the budget and accounting officers in Local Governments at all levels with detailed legal and regulatory instructions on most aspects of Local Governments financial management (Pradeep, 2011).

The main regulations concerning Local, Government budgets are contained in parts III of the Local Government financial and accounting regulations 1998. Therefore, the Local Government financial and accounting regulations enable the Local Governments to collect revenue and thereafter deliver services to the people (Pradeep, 2011).

It is a legal requirement for Local Governments to comply with national priorities by implementing various national programmes to ensure service delivery .the overall planning framework for Uganda is the poverty eradication Action Plan (PEAP) which sets out the central Government's national objectives and strategies for reducing poverty. The medium term expenditure framework (MTEF) and supporting national budgeting framework paper process (NBFP) is a three-year rolling budget system that constitutes the link between poverty eradication Action Plan and the budget allocations for implementation of the various programmes. The central Government ensures that national priorities are reflected in Local Government budgets through allocation and transfer of conditional grants to Local Governments (Johnson and Rogaly, 2011).

The Local Government budget framework paper is one of the three main tools that enable integrated planning and budgeting in Local Governments. The Local Government budget framework paper articulates the Local Government's three-year budget strategy. This is an important decision making tool for the Local Government, which helps to focus the debate on spending options in the Local Government (Emezi, 2003).

The Local Government budget framework paper provides a profile of the Local Government. It provides previous financial year revenue performance against revenue budget estimates and revenue projections for the next three years, provides revenue projections for the next three years, and provides sector objectives and performance targets for the next three years (Caulfield, 2000).

The Local Government budget framework paper also provides indicative allocations and sector objectives and performance targets for the next three years, show sector unfunded priorities and reallocations of funding. Therefore, the Local Government budget framework paper greatly links revenue collection in the Local Government with the services delivered to the community (Mullins, 2004).

Prior to the Local Government budget framework paper, each Local Government review and update its development plan to cover and include all intended activities for the financial year whether funded by the central Government, bilateral donors or Local revenue. Each activity will be numbered in the District annual plan (DAP).The District development plan should be resource constrained but highlight any priorities that cannot be funded over the medium term (Emezi, 2003). Notably all budgeting should be based on reference to the activity appearing in the District development plan and accordingly the Local Government budget framework plan shall summarize the key elements and aggregate allocations and outputs in the District development plan. As the District development is the main basis on which the Local Government budget is prepared, the District development plan needs to be up date if the budget is to be realistic. Every financial Local Governments revise their District development plans to reflect current resource constraints and new priorities (Mullins, 2004).

The Local Government budget committee is responsible for analyzing and ensuring that the contents of the Local Government framework paper are in line with the agreed rules of the game as set out initially by Local Government budget committee. For example, the Local Government budget framework paper must clearly demonstrate the link to the District development plan, the budget and annual work plan or else it will not be accepted. The Local Governments also review and collate overall issues in the Local Government framework paper for submission to the ministry of finance planning and economic development to be incorporated in the national budget framework paper and budget (Peter, 2008).

It should be noted that all Local Government budgetary framework papers should have an executive summary. Its functions are, to set out the key objectives of the District as identified in the District development plan (Zaman, 2000).

To set out the key elements of the medium term budget strategy in the Local Government budgetary framework paper. to highlight major constraints in achieving set output targets, to highlight major achievements against set output targets, to highlight planned interventions to improve implementation , to provide the overall financial position of the Local Government including its debt burden, to highlight changes to grant allocations (Rodrik, 2010).

A well-written executive summary should provide the major stakeholders with an easy overview of important information without going into the detail. The issues in the executive summary are incorporated by the ministry of finance planning and economic development into the national framework paper to ensure that the intended objectives are achieved (Rodrik, 2010).

Each Local Government budget framework paper should also include factual data on the District. This is given in the District profile. This profile among others, serve as a benchmark for measuring outcomes over time and form the basis for revenue and expenditure projections. Information in the profile might be ;the size of the District, population, kilometers of main/ feeder roads, number of primary / secondary schools, number of hospitals and health centres, number of tax payers. This helps in the linkage of revenue collected to the delivery of services to the people in the District (Zaman, 2000).

Many studies show that government expenditure is positively related with economic growth and poverty reduction but due to high expenditure most of the developing countries are facing the problem of fiscal deficit. Fiscal deficit leads to inflation in the economy. In many developing countries high fiscal deficit crowding out the private investment in the long run and decreases the employment and output which adversely affects the poverty (Abelson, 2012).

Dollery (2005) analyze relationship between macroeconomic variables and economic growth in Pakistan. They have concluded that budget deficit is negatively correlated with the economic growth and output as it considered as a sign of macroeconomic instability. They further concluded that fiscal deficit reduces the output through taxes and current expenditure (civil servant salaries etc) that negatively affect the private sector productivity and it also crowd out the private sector investment as weak credit market performance. Caulfield, (2000) investigated the causal relationship between budget deficit and economic growth in six countries and found mixed results. In three cases he did not find any casual relationship between budget deficit and growth while in remaining three cases evidence shows that budget deficit adversely effected the growth. Abelson, (2012) examined the money supply, deficit and inflation relation in case of Pakistan. They concluded that inflation creates poverty through income redistribution. They further stated that the long run relationship between budget deficit and money supply exists. Financing of budget deficit through banking system causes inflation which can be kept under control by reducing the size of budget deficit and step should be taken to boost private investment.

Mullins, (2004), have done empirical analysis of fiscal imbalances and inflation in Pakistan. They found out short run as well as long run relationship among money supply, budget deficit and inflation and concluded that the bank borrowing is more inflationary than non bank borrowing. They further concluded that the expansionary fiscal policy increases interest rate and may crowd out private investment and increases inflationary pressure. Metin (1991) analyzes the empirical relationship between inflation and budget deficit for Turkish economy through multivariate co integration analysis. He found that the scaled budget deficit significantly effects the inflation in Turkey. Catao and Terrones (2003) examined the relationship between fiscal deficit and inflation. A strong positive relationship between fiscal deficit and inflation among high-inflation and developing country group were studied.

Mullins, (2004), examined the effect of budget deficit on inflation in Tanzania and found hat economy experienced a high inflation rate accompanied by high fiscal deficit. Benneth (2007) examined the role of fiscal policy in alleviating poverty in case of Nigeria. He used the general equilibrium model for the study and concluded that the government revenue also positively redistributes income but government expenditures are the important and effective tool of income redistribute and reduction in poverty. He further concluded that the fiscal policy should be formulated in such a way that it redistributes the income from the rich people of the society to poor ones.

Furthermore persistent high inflation rate can affect the sustainability of fiscal deficit. REPOA, (2012), found association among high inflation rate and large deficit to GDP ratio and deficit instability. As economic growth may increases through government spending. Rodrik, (2010) examined the relationship between economic growth and government expenditure, both at bivariate (aggregate) and multivariate (disaggregate) systems and concluded that economic growth causes government expenditure at bivariate level and also supported that increase in GDP causes growth in government expenditure - Wagner's hypothesis.

Inequality is also an important factor in increasing poverty in developing countries as it adversely effects the economic growth. Many studies found high economic growth accompanied with increasing poverty while some of them also show that in period of low growth poverty reduces. Rodrik, (2010) have done study on Tanzania's growth process and reduction in poverty that how the large scale privatization, liberalization and monetary and fiscal policy affect the poverty through different channel, like private investment and exchange market. He argues that economic reforms and macroeconomic stabilization, resulting in strong growth and low inflation which significantly impact poverty.

Zaman, (2000) studies the macroeconomic policies and their impact on poverty reduction, founds that the growth above a threshold level of about 5 percent, increase in employment and remittances are the most important variables explaining the change in poverty over time. They also examine those policies under Structural Adjustment Program by IMF increases poverty. Kaldor (1957) and Bourguignon (1981) suggested that greater inequality might lead to growth through capital accumulation. While in contrast modern approaches emphasizes that poor people are unable to invest in human and physical capital with adverse consequences for long run growth on the other hand

Forbes (2000) found positive effects of income inequality on growth.

Rodrik, (2010) studied the relationship between remittances, trade liberalization and poverty in Pakistan in general equilibrium framework. They have used the decomposition approach (rural and urban) and found that all poverty measure in rural and urban shows that decline in remittances increases poverty. They have concluded that the remittances reduction greatly contribute in the poverty of Pakistan. He further concluded that reduction in the remittances and trade liberalization increases the income inequality that increases poverty

However, Zaman, (2000) says, taxation is a controversial issue and it is not just an economic instrument designed to generate revenue for development purposes. It is also a political weapon that threatens the stability of administration. One can readily recall the Aba women's Riot of 1929, the then colonial Administration in Nigeria did not quite find it funny and tax was at the root of it (Ochiama 2008). Income is an accurate measure of tax and paying ability depending on how it is defined (Encyclopedia, 1984). It further explained that the only definition that has been found to be completely consistent and free from anomalies and capricious is "accrued income" which is the money value of goods and services consumed by a tax payer plus or minus any charge in his net worth during a given period. Personal income refers to income of individuals, communities, or families arising from employment, business, trade, profession, or vocation (Rodrik, 2010).

According to Robert, (2011) income tax is personal income tax because it excludes companies. Therefore, personal income tax is levied on individuals or family units and it is computed on the basis of income received. According to Ngex (2008), a tax payer is required to file returns for the preceding year within 90 days at the end of the year. civilization [population] increases, the available labor again increases. In turn, luxury again increases in correspondence with the increasing profit and the customs and needs of luxury increase. Crafts are created to obtain luxury products. In the early modern period, some people in Western European nations developed the idea that economies could "grow", that is, produce a greater economic surplus which could be expended on something other than mere subsistence. This surplus could then be used for consumption, providing assistance to citizens when the need arises, warfare, or civic and religious projects (Pradeep, 2011).

Later it was theorized by Pradeep, (2011) that economic growth also corresponds to a process of continual rapid replacement and reorganization of human activities facilitated by poverty alleviation motivated to maximize returns. In his view, said the modern conception of economic growth began with the critique of Mercantilism, especially by the physiocrats and with the Scottish Enlightenment thinkers such as David Hume and Adam Smith, and the foundation of the discipline of modern political economy. The theory of the physiocrats was that productive capacity itself allowed for growth, and the improving and increasing capital to allow that capacity was "the wealth of nations". This view entails that if the states or countries are able and capable in raising revenue that will be used in sustaining the growth of the communities (good tax management for example being among the state sources of revenues), then the wealth of the nations could prosper.

According to Abelson, (2012), the credit market imperfection approach, developed by Galor and Zeira, demonstrates that inequality in the presence of credit market imperfections has a long lasting detrimental effect on human capital formation and economic development. Equally it is depicted that for a country to prosper there must be fair treatment to all and sundry irrespective of status. This can be achieved if the states are up and doing in their civic responsibilities such as due emphasis in managing the tax revenues generated. On the contrary the political economy approach according to

McKinnon (1973), developed by Alesian and Rodrik and Persson and Tabellini suggests that inequality is harmful for economic growth because inequality generates a pressure to adopt redistributive policies that have an adverse effect on poverty alleviation and economic growth.

There were Revenue Division Centers (RDC) in Kaduna and Kano. Local Revenue Division Centers (LRDC) were established too in certain provinces apart from central divisions. As at then, Kano State was only allowed to collect tax but not to administer it. The taxes are mainly collected by traditional rulers. In fact, Kano State is one of the oldest States in the Federation. It was created in 1967 following the creation of Additional States on May, 12th 1967 by the Military Government of General Yakubu Gowon. The state had four (4) emirates councils, which comprises Kano, Hadejia, Gumel and Kazaure (Abelson, 2012).

Bagdamasi Babangida's administration upon which Jigawa state was curved out of Kano State. As time passed by, Kano State was allowed to collect and administer taxes. The responsibilities of collecting all dues in connection with taxes was vested on the Revenue Division (RD) of the Ministry of Finance (MOF), but have no complete power to implement such activities. However, in 1982, Kano State Government passed a resolution calling on the state government to make an edict which gave birth to Kano State Board of Internal Revenue (KSBIR) with the view to having an independent body that will collect and administer tax in the state. Subsequently, the edict was promulgated as Kano State Government Edict No. 9 of 1982 (Emezi, 2003).

The Revenue Division of the Ministry of Finance was abolished after the enactment of the Edict. Trade liberalization and globalization have a major impact on the design of the tax system and the composition of tax revenues. As a results of trade liberalization, taxes on cross-border trade which constituted one of the main pillars of the tax system of developing countries in the 1980s was reduced and trade tax revenues decreased by about 20% from the early 1980s to the late 1990s (Emezi, 2003). This caused a shift of the focus in the tax system from taxation of cross-border transactions to domestic revenue mobilization. Globalization and competition for foreign goods and services put pressure on corporate taxes, and the statutory tax rate of corporate income tax continues to be reduced. Since the population is on the increase and the world has entered the era of Information

Communication Technology (ICT) and the conclusion of Omoruyi in the early 80s, the current study is expected to look at the contribution made by the tax authorities towards good tax management which at the end will reflect good tax system in the state and country at large. There are variations in living standards around the globe, as economic growth rates and productivity vary from nation to nation. Some countries are poor, some are fairly well off, and others are rich, just as some individuals are poor, some are fairly well off, and others are considered rich (Emezi, 2003).

However, everything is relative and that is certainly the case with poverty as in USA "millions of Americans cant make a decent living" (Schwarz, 1998) in Victor, (2001). What most people in the United States today regard as "stark poverty would seem like luxury in parts of Asia. Similarly, a poor person in Nigeria might not be perceived as such by other Africans in their economic needs. Thus, poverty is partly a matter of how one persons income stacks up against the other person. He further classify modern poverty into two, namely: Case Poverty, and Insular Poverty

Insular Poverty on the other hands, manifests itself as an Island. In this imaginary island everyone or nearly everyone is poor. He has noted that it is not easy to explain insular poverty by individual inadequacy because the environment in which the people found themselves may have made them poor or may have frustrated them. Poverty is an enemy of man, it humiliates and dehumanizes its victim as Ukpong (1996) in Daniel et. al (2009), rightly noted. Poverty has been a serious challenge to governments in Nigeria. Its effect which includes lack and deprivation in the basic necessities of life is worrisome, the condition will be worst if fuel subsidy removal stands still. Therefore, capacity to raise taxes and manage it is one of the core foundations of both economic growth and political development. At independence in 1960 and for the best part of the 1960s, poverty eradication efforts in Nigeria centered on education, which was seen as the key to economic, technological and intellectual development of the nation.

The causes of this state of poverty in the country had variously been traced to, among other factors: Corruption, bad governance, debt overhang, unemployment, low productivity, burgeoning population growth, globalization, unfocused government policies, and lack of effective skills training, among others. The tax regime is critical for poverty alleviation in private and public sector development, economic growth and poverty alleviation among others. The share of tax revenue in GDP for the lowest income countries about around 16-18%, rising to about 20% for countries with per capita incomes of $1,500 and exceeding 40% in many high income countries (Rogar, 2007). The share varies widely across low (Emezi, 2003).

2.3.5 Service delivery in Local Governments

The Local Government is a crucial institution from where people can best define their priority problems and organizes to deal with them. Moreover, the poor interact almost exclusively with the Local Government from which they seek services and support. For example, District Local Government directs National Agricultural and Advisory Services (NAADS), and support given to farmers (Zeller *et al.,* 2013).

Local Governments are capable of providing public services, mobilizing community resources, stimulating private investments, expanding rural-urban linkages, adopting national development to Local conditions and investing in Local infrastructure (Caulfield, 2000).They can also be a crucial source of empowerment by offering opportunities for long neglected citizens to participate in the Local decision making processes. They hence act as a voice for Local needs at higher levels and providing adapted support for Local people's initiatives.

Key sector outputs and allocation are relevant to the District political and administrative officials. The department work plan summarises the main outputs of each sector within a department (for example hospitals, primary healthcare, and the director of health services office), and the total budget for the sector. The output indicators should be limited to three or four per sector. Again the recurrent indicators should be drawn, where possible from the sector guidelines. In the preparation of recurrent summaries in some sectors, it may also require to add indicators of service delivery volume as well as well as outputs (Tinker and Summer, 2000).

It may not be enough to know the prevailing pupil to teacher ratio (output) for the District indicators of the volume of service delivery such as the number of pupils enrolled and the teachers on the payroll are important (Carnegie and Baxter, 2006).

A description indicating how services are being delivered to the community throughout the Local Government can be formulated. For example there is a section that sets out the summary for the District as a whole, then a section that splits the sector budget into geographical areas (for example the Local council, and provides information on the service outputs, such as the pupil to teacher and textbook and pupils in a given area. Indicators may be on service delivery levels and not traditional activities. For example in education, information on the enrolment and number of teachers, textbooks and pupils in a given sub county/division will be provided in place of indicators on the number of activities. This service being delivered data will provide information on the service delivery outputs, such as the pupil to teacher and textbook ratios (Dollery, 2005).

The desegregation of data area helps to ensure that funds are allocated fairly throughout the District/municipality. For example, this involves service delivery investments by section and geographical area such as counties and sub counties. Members of sector committees, councilors, departmental managers are interested in service delivery in their areas and therefore ensure that proper policies are designed and later implemented to ensure effective service delivery to the community (Caulfield, 2000).

A major weakness of the literature review regarding service delivery is that it assumes that the services are provided by default by the District Local Government from the revenue collected. It portrays a scenario whereby the public automatically benefits from the programs in the communities and is quite misleading as it tries to correlate the rural-urban linkages, and shows how the citizens directly participate in decision making which is not always the case (Rodrik, 2010).

2.3.6 Tax and Governance

The political importance of taxation goes far beyond providing income to finance the public sector, investments, and the basic needs of the population. Historically, state building has been closely connected to the development of the tax system (Tilly 1992; Webber & Wildavsky 1986). However, the tax system has not only contributed to establishing states, but also to promoting the state's legitimacy and strengthening democracy, as well as to creating economic well-being for the general population. The concept 'fiscal social contract' is central to explaining the development of representative states and democracies in western countries. The experiences of Western Europe and

North America show that taxation has contributed to making the authorities more representative and accountable by furthering a dialog between the state and civil society on taxation. Mobilizing interest groups (business organizations, trade unions, and consumer organizations) to support, oppose, and propose tax reforms, has been central in this connection. The development of an effective tax administration also stimulated the development of institutions in other parts of the public sector. Systems for recruitment, competence building, and management in the tax administration have been models for the development of other parts of the public administration (Bräutigam *et al* 2008).

Although countries in East Asia followed a development path different from that of western countries, the tax system was an important component in the development strategy of this region, too. In South Korea and Taiwan, taxation contributed to supporting economic policies that furthered development and the building up of public institutions in general (Shafer 1997). The tax system in Taiwan required the authorities to develop extensive databases for a wide range of enterprises and households. To a large extent, this contributed to curbing the development of the informal sector that is characteristic in many other developing countries.

In the 1950s, South Korean authorities focussed strongly on developing the tax system, particularly for personal and corporate taxes (34 percent of tax revenue derived from direct taxes). This laid the foundations for a broad-based tax system under the regime of president Park in the 1960s. Later, this was the basis for the development of state information systems and databases that made it possible for the authorities to target state credits, subsidies, and other interventions towards individual companies in the process of industrialization. In Latin America and Africa, Costa Rica and Mauritius can point to similar experiences: The tax system was a key factor for the development of an accountable and functioning state. When the state depends on tax income from wide sections of citizens and businesses, the authorities have incentives to expand their presence also in rural and peripheral areas. This presupposes, however, that the state develops an institutional apparatus for registering its citizens and businesses, and an effective tax administration.

Abelson, (2012), perceived a simpler definition in which tax compliance is defined as the most neutral term to describe taxpayers' willingness to pay their taxes. History has shown that there has always been a reluctance to pay tax, not only in Africa where the need for increased internal revenue to finance government expenditure and hence reduce reliance on external assistance is high but also in developed countries. A major reason for this attitude is that the taxpayer does not always perceive that he receives equal benefits in return.

Non-tax compliance is an act of not conforming or not acting in accordance with established guidelines, specification or legislation of a given country. Tax compliance is a major concern for all governments hence to improve tax compliance it is necessary to cultivate a culture of harmony among taxpayers and tax collectors. Voluntary compliance is not a onetime event it has to be continuous. Non-Tax compliance is where a person fails to pays tax according to law, but does so by legal forces. People may choose to comply or not to comply, although the thoughts of social reward and punishment may lead them to compliance when they really do not want to comply (Emezi, 2003).

Tax compliance is a major concern for all governments hence to improve tax compliance it is necessary to cultivate a culture of harmony among taxpayers and tax collectors, its' not a onetime event it has to be continuous. The level of tax compliance in developing countries is 50% or below. In Tanzania alone, Studies indicates that in 2006 there were 40 percent of all households in Tanzania Mainland in the informal sector activities. In the same year the urban informal sector employed 66 percent of the people for whom informal sector work is the main activity and only 16 percent of those for whom it is the secondary activity (Emezi, 2003).

The Tanzania Revenue Authority (TRA) was established by act No. 11 of 1995 and started operations in July 1996 to improve tax administration in the country. Prior to its establishment, tax administration in Tanzania was directly under the Ministry of Finance operating under loosely related three revenue departments of Customs and Excise, Income Tax and Sales tax and Internal revenue (TRA, 2009). Being an autonomous government agency with the responsibility of collecting the government revenues, the Tanzania Revenue Authority has also the duty of increasing voluntary tax compliance in a cost effective way (Emezi, 2003).

The authority is currently implementing the Third Corporate Plan covering 2008/2009 to 2012/2013 whose main objective is to modernise tax administration by the year 2013. The strategic goals under the Third Corporate Plan are; to increase revenue collection in a cost effective way, modernise TRA operations, promote voluntary tax compliance and enhance staff performance management system. According to the Corporate Plan, TRA is determined to warrant voluntary tax compliance by ensuring that it is a fair and competent tax administration. It has enforcement programmes and taxpayer service and education programmes. TRA achieves this through enhancing the level of tax knowledge to both taxpayers and staff by developing a unified system for communicating various laws, regulations and their amendment. It ensures availability of all tax information and to enhance partnership with tax practitioners to ensure there is increased voluntary tax compliance (TRA 2006). This chapter has presented the statement of the problem, study objectives and questions and significance of the study, including the scope of the study (Johnson and Rogaly, 2011).

The social, economic and political realities in Tanzania translate to a complicated operational reality for tax administration. The taxable workforce is quite small and the domestic labour market is complicated, and yet it’s believed that a good number of eligible tax payers are not paying taxes. Since its establishment, TRA has undergone three major tax reforms, these which are first Corporate Plan (1998/99 – 2002/03), The Second Corporate Plan (2003/04 – 2007/08) and currently its implementing third Corporate Plan (2008/09-2012/13). All the three tax reforms has always being focusing on institution building, improving service delivery and increase government revenue collection through expanded tax base through enhancing voluntary tax compliance and build a fair tax system (Johnson and Rogaly, 2011).

The tax reforms were also meant to encourage economic growth by providing good environment for fair competition in business through control of the informal business sector. It has been reported that, TRA has been surpassing its revenue collection targets since it was established that is from shs 515,144 million during the year 1996/97 to shs. 5, 315,147 million in 2010/2011, this good performance had always been attributed to a number of factors including simplification of the tax payment procedures and modernization of TRA operations (Abelson, 2012).

It is noteworthy however that despite achievements made, the level of tax compliance is 50% or below (Abelson, 2012). Some studies has argued that non-compliance is deliberate and systematic, while others have argued that there are variety of barriers to deter no-tax compliance. Nevertheless nothing much has been said on factors promoting non-tax compliance in Tanzania. This study has been constructed to deliberately assess the factors promoting non-compliance of tax payment in Tanzania.

Ideally tax administrations should have the freedom to collect the tax due in terms of the laws. However, as indicated above, political and policy pressures often impact on the collection function. Murphey, (2004) state, “the first task of any tax administration is to facilitate compliance. This requires making sure that those who should be in the system are in the system and that they comply with the rules.

Tolerance for tax evasion breeds more evasion and also provides a breeding ground for corruption. A high level of evasion puts pressure on otherwise “law-abiding citizens” who have to compensate for the additional burden resulting from large-scale tax evasion. This is likely to create a tendency to tax evasion among at least some of these honest taxpayers. Abelson, (2012) state that “compliance improves when taxpayers believe the tax system is fair, they believe that they receive something valuable for their payments and when society shows no tolerance for tax evasion.

When reviewing overall tax compliance, the ease with which taxpayers can comply with their legal obligation to pay tax is a critical factor. Much research has been done globally regarding compliance costs, both qualitative (researching the factors that result in a compliance cost) as well as quantitative (attempting to measure the compliance cost) for different types of taxpayers (Wenzel, 2005).

In a recent study on tax compliance in the business sector in South Africa, Smith, (2002), concluded that, generally, taxpayers’ decisions to comply (or not comply) are determined by the following direct factors, the complexity of the tax system (Mikesell and Birskyte, 2007); Taxpayers’ confidence in government generally, but more specifically government service provision and the cost-effectiveness of the provision of public goods and services, as well as the level of fraud and corruption within government.

Irrespective of how good tax policy is, good results are only possible in an appropriate environment (Elffers, 2012). In this context there are various relevant “environments” or factors, namely the political environment, prevailing economic environment, existing fiscal policies, the constitutional and legal environment, the tax administration, taxpayers, as well as or possibly collectively in country realities, that may impact on tax compliance. These factors are generally interrelated and interdependent.

Elffers, (2012) correctly states the following, “Abundant experience around the world has made it clear that the single most important ingredient for effective tax administration is clear recognition at the highest levels of politics of the importance of the task and the willingness to support good administrative practices even if political friends are hurt.

Good tax policy is worth very little if it cannot be implemented effectively. Therefore, the administrative dimension of taxation simply cannot be ignored in good tax policy design. For example, developing countries often have large traditional agricultural sectors that are difficult to tax. Many developing countries have a significant informal economy that also is largely outside the formal tax structure.

As Mullins, (2004), correctly point out, complexity of tax legislation reduces compliance. In their study, which focuses on the United States, they conclude that there “is a general consent that American income tax preparation is burdensome and even overwhelming. REPOA, (2012),state, “Presumably, the less burdensome and costly compliance is, the more likely a taxpayer is to comply with the tax laws. Complexity can also frustrate taxpayers in their efforts to comply with tax laws and create a sense of unfairness.

The use of tax practitioners to assist the taxpayer may, or may not, improve tax compliance. Mullins, (2004), argue that they help alleviate the compliance burden which results from complex tax laws and regulations by providing specialized information and computational skills. The use of paid help to file the tax return may also reduce time costs and psychological costs (e.g. relating to anxiety and uncertainty related to compliance). However, they may also be (and are often) used "to exploit grey arrears in the tax laws and regulations to the detriment of compliance with negative consequences for tax equity and efficiency"

However, tax compliance does not entail only costs for the taxpayer. There are also tax compliance benefits which need to be considered. Literature on "tax compliance benefits" categorised these benefits into three broad categories, namely cash-flow benefits, managerial benefits, as well as tax deductibility benefits (REPOA, 2012).

Cash-flow benefits are the benefits derived from the use of tax revenues for a period before they must be paid over to the revenue authority, such as property tax collected by banks or supermarkets, the deduction of "pay-as-you-earn tax" (PAYE) by employers and VAT by vendors, before these are paid over to the relevant revenue authority (Kirchler, 2009).

As Bird (2003) correctly points out, "assessing the relation between administrative effort and revenue outcome is by no means a simple task". Maximizing revenue is only one dimension of the task of tax administration. How that revenue is raised, in other words the effect and impact of the revenue-raising task in equity, the level of economic welfare as well as the political fortunes of governments, may be as important. Rather than simply looking at the amount of revenue raised, that is the level of collection, to measure the effectiveness or success of a tax administration, a more accurate measure would be to measure the so-called "compliance gap" which constitutes the gap between actual and potential revenues

A transparent and accountable tax administration that is service-oriented is likely to have a positive impact on public trust. If the revenue is furthermore properly spent in terms of a budget which the taxpayers find agreeable, compliance should increase. A fascinating example is the so-called "110% campaign" in Bogotá, Colombia (Pinilla, 2012). In the early 2000s, the then mayor of the city launched a campaign in terms of which taxpayers were requested to volunteer an additional voluntary contribution to their property tax (as well as other local taxes). In the most successful years of this campaign more than 56,000 taxpayers made additional, voluntary payments. The money was spent on programmes agreed to by taxpayers and the success was largely founded in taxpayer confidence in the mayor – i.e., trust in the government of the day.

Governments periodically offer those who have not fully complied with their tax obligations a period in which they can voluntarily correct past violations and not suffer the full penalties that such violations would normally entail. Although revenue is a key attraction of amnesties, they are also sometimes used to address political goals, for example, as a measure to "put the past behind us in order to move forward" (Bird, 2003). On the whole, the evidence is clear that tax amnesties are seldom successful and should rather be avoided (Bird, 2003).

Tax incentives and concessions are often used as measures to enhance revenues and overall tax compliance. As Bird and Zolt (2003) point out "many countries have sought to improve their economy by introducing a variety of tax incentives for investment, for savings, for exports, for employment, for regional development, and so on. Often, such incentives are redundant and ineffective, giving up revenue and complicating the fiscal system without achieving their stated objectives.

Tax incentives result in inequity as they purposely cause very uneven tax burdens, with domestic companies often subject to full taxation, while foreign investors benefit from tax incentives that reduce their effective tax rates (Kirchler, 2009). These authors further indicate that non-tax factors, such as a sound macroeconomic policy, good infrastructure and a stable governance system are more important factors in locational decision than tax concessions. Although there may indeed be cases for some tax concessions, for example, to assist the small business sector, “these tax incentives should be well-designed, properly implemented, and periodically evaluated if they are to do more good than harm”

In an attempt to assist micro, small and medium-sized businesses to lower or minimise their tax compliance costs and reduce their tax burden, governments often provide these enterprises with a simplified tax regime and/or a variety of tax concessions (Elffers, 2012). These concessions can generally be classified into two main categories, namely positive concessions that provide a lower rate of taxation, an exemption from paying tax or an accelerated tax deduction; and relieving concessions that excuse the taxpayer from requirements otherwise imposed, for example special registration thresholds for certain taxes (relieving taxpayers from complying with a tax), simplified accounting rules and longer accounting periods (e.g., for VAT purposes).

Discouraging non-compliance is only one aspect of improving compliance (Mullins, 2004).. Treating taxpayers in a professional manner, in other words, more like customers rather than like suspects or thieves, may do much more to promote and improve compliance. Providing taxpayers with various payment options (e.g. banks, supermarkets, internet, ward offices), easy filing, and assistance (e.g. on-line or at shopping malls and sports stadiums) not only reduces actual compliance costs, but can reduce unintentional non-compliance.

Various opinions exist about the best ways to improve tax compliance. Given the chance, a lot of businesses will not pay taxes unless there is a motivation to do so. Some believe that the best way is to increase incentives (Pradeep, 2011) others believe the best way is to increase penalties. Tax compliance theories can be broadly classified into two. They are; economics based theories and psychology based theories (Murphey, 2004).

Tax compliance determinants from a social perspective relates to taxpayers' willingness to comply with tax laws in response to other peoples behaviour and their social environment (i.e the government, friends and family members) (Torgler, 2007). On the other hand, Kirchler (2007) suggested that social factors should be viewed in a broader sense than Torgler's perspective; this includes the psychology of the taxpayers. The factors discussed in this section are therefore ethics and attitudes toward tax compliance, perceptions of equity and fairness, changes to current government policy and referent groups.

Ethics are a subjective continuum and the level of ethical behaviour is heavily reliant on how people perceive the behaviour being considered. Studies on tax psychology which predicts people's behaviour using the Theory of Reasoned Action (TRA) and Theory of Planned Behaviour (TPB) was first introduced by Fishbein and Ajzen (1975) and Ajzen (1991).These theories attempt to predict people's behaviour based on their intentions. It is assumed that ethics encourage individuals to act according to them and a taxpayer with a negative attitude towards tax evasion tends to be less compliant (Mullins, 2004).

In distributive justice, an individual is concerned about the fairness of their actions, and wants to be treated in relation to his merits, efforts and needs. If he feels that his tax burden is higher than other people within the same income group, his tax compliance probably decreases more widely at group levels; taxpayers want a fair treatment of their group relative to other income groups. If a specific group perceives that their tax liability is higher than other groups, then tax evasion might occur among the group members (Mullins, 2004).

Political stability and the ruling government party in a country might play a significant role in determining tax evasion behaviour. For instance, if an individual favours the current ruling government party, he might choose to be compliant because he believes that the government is trusted, efficient and equitable. Conversely, a taxpayer from the opposition party might be more noncompliant because he perceives that the government is not on his side (Pradeep, 2011).

In addition to the political affiliation, changes of current government policies might also impact tax compliance behaviour. Hasseldine and Hite's study examined two potential influences on taxpayer attitudes, namely political party affiliation and attribute framing. Since tax attitudes may be influenced by one's political preferences, taxpayer attitudes towards the current system are tested for differences by political affiliation (Democrat, Republican, and Independent in this case). Elffers, (2012). suggested that taxpayers who support the Republican Party were more likely to prefer flat tax and sales tax systems than were Democrats and Independents.

Decisions either to evade or not to evade taxes are heavily reliant on taxpayers' personal judgment. Other influences, such as that of peers might also affect the decision, but the final decision is made by the individual (Pradeep, 2011).

Personal financial constraints are believed to have an impact on tax evasion as financial distress faced by an individual may encourage him to prioritise what has to be paid first as basic survival needs (foods, clothing, housing etc.) or where immediate demand on limited income is enforced (i.e perceived threat of action from money lenders etc.) rather than tax liabilities. People who face personal financial problems are likely to be more prone to evade tax when compared to people in less financial distress (Pradeep, 2011).

A theoretical economic model introduced by (REPOA, 2012), has clearly indicated that penalties as well as audit probability have an impact on tax compliance. The higher the penalty and the potential audit probability the greater the discouragement for potential tax evasion. However, the more complex models like principal agent theory and game theory suggest that penalties and audit probability are difficult to portray in compliance models as the results are determined endogenously with tax cheating. If the taxpayers are aware of the offences they are committing when evading tax and the consequences of being non compliant taxpayers, they might reduce their tendency to evade tax.

In this perspective, the challenge for poor countries is not necessarily to collect more tax, but to tax a larger share of their population and businesses. For several reasons, including economic structure and history, this is not easy. The informal sector is often substantial, and difficult to tax. Another important challenge is to avoid taxes that taxpayers generally regard as unfair, and that require a large measure of coercion to collect (for instance poll tax). Such taxes have been common in many poor countries, and it is characteristic for them that only a small proportion of dues are paid, and the cost of collection is high. They have also blocked the development of a fiscal social contract.

However, the past few years have seen substantial resources invested in changing the attitudes and behaviour of tax administrations towards taxpayers (Fjeldstad & Moore 2009). Experience from a number of countries has shown that taxpayer behaviour can be changed by reforming the tax system. In some countries, this has given the public a more positive attitude to the tax system, and has led to the mobilization of interest groups that demand better public services. For example, the authorities in Ghana, Tanzania and Uganda have all increased their fiscal space through higher domestic revenue mobilization in the period 2000-2006 (Gupta & Tareq 2008).

However, in many poor countries, the authorities have no incentives to enter into a dialogue and negotiate with organized groups in society. This is one of the main reasons for bad governance. A complex set of historical factors, including state formation through colonization, has frequently led to a concentration of economic and political power with a small elite. This elite generally does not pay taxes, and is relatively unaffected by organized interest groups in society. The state is powerful vis-à-vis its citizens and is not answerable to them, but it is weak in terms of capacity for implementing policies. The elite lack both the will and the ability to build a civil society. The need of the elite to negotiate with organized domestic interest groups is lessened further by the global context, where the political elite has access to enormous resources from sources other than the taxation of citizens, particularly income from natural resources (Leite & Weidmann 1999; Christian Aid 2008) and organized crime (Bayart *et al* 1999; Chabal & Daloz 1999).

Developing countries whose income derives mainly from sources other than taxation of their citizens, for instance from natural resources like oil and minerals, are generally characterized by bad governance and poor public institutions (Ross 2001). Among the few exceptions are Botswana and Malaysia. Bad governance is often correlated with the state being independent of revenue from taxation of citizens and businesses. Access to substantial foreign aid can also contribute to detaching the state from its citizens, and reducing the need for tax reforms (Bräutigam & Knack 2004).

2.3.7 Tax System and Poverty Reduction in Tanzania

Like most developing countries, Tanzania faces serious fiscal challenges in her effort to mobilize and effectively use resources for poverty reduction. However, the tax base remains small as reflected in the low tax-to-GDP. The government is under internal and external pressure to increase its domestic revenue collection and in turn, reduce its dependency on donors. In response to the pressure the government endeavored to maintain fiscal discipline, partly by raising taxes. The consequences of this move on the poor remains unclear (Tinker and Summer, 2000).

Tanzania is one of the Sub-Saharan African (SSA) countries that recorded strong economic growth in the 1990s. During this period income poverty declined from 56 percent in 1992 to 34 percent in 1999 of the population living below the poverty line (USAID, 2007).

On the other hand, in Tanzania the tax reforms of 1997 were implemented as a means of increasing the government's revenue in a sustainable manner. It was expected that the revenue raised would be used to support the government's poverty reduction interventions as identified in its Poverty Eradication Action Plan (PEAP). But more than 40 percent of public spending in poverty reduction activities is supported by donors. Tax revenue as a share of Gross Domestic Product (GDP) increased from 10.8 percent in 1997/98 to only 13.6 percent in 2003/04 (REPOA, 2008).

Tanzania like many other SSA countries tax revenue as a share of the GDP remains small, constraining the government's overall expenditure capacity. This is probably due to low tax base, low compliance and in particular predominance of the informal sector. In spite of this, the government projects tax revenue to increase by 0.5 percent of GDP, annually. And there are already on-going reforms aimed at improving the tax administration (REPOA, 2008).

While the fiscal constraints remain a challenge to both Central and Local Governments, there are anecdotal claims especially in the print media that the existing tax system hurts the poor most. On several occasions, politicians and some policymakers alike have called for reforms in the direct tax systems especially graduated tax (Peter, 2008).

There are fears that increases in income tax might deter investment. The only feasible options besides improving the current tax administration are changes in Value Added Tax (VAT) and/or excise taxes. All this said there is scanty empirical evidence on how the suggested tax reform might affect the living standards at the household level, especially those of poor households. There is need to have a thorough analysis of how the proposed tax changes might impact on the poor before such reforms are implemented (Mullins, 2004).

2.3.8 Relationship between Tax and Poverty

Tax systems around the world can have substantial effects on the income available to families with low-skill workers. Key factors affecting the tax burdens of poor families include the set of taxes used in the economy, the specific exemptions and deductions contained in the system, and the special provisions targeting low-income households (Johnson and Rogaly, 2011).

The primary taxes borne by low-income US households are the Social Security payroll tax, state and local sales taxes, and in some states, state income taxes. Roughly 41 per cent of US families pay more in payroll taxes than individual income taxes. If we (appropriately) assume the employer's share of payroll taxes are borne by workers, payroll taxes exceed income taxes for 71 per cent of US families. For most low-earning individuals, the net present value of Social Security benefits still exceeds the present discounted value of taxes paid (Peter, 2008).

Sales taxes and their international cousins, value-added taxes, also raise concerns among policymakers that they impose inappropriate burdens on low-income households. Consequently, these taxes frequently exempt items such as food, clothing, and medicine that are thought to typically compose larger shares of poor families' budgets than is the case for other families. Zero-rating (excluding) items raises a fundamental issue in taxation. By far the most important factor affecting the tax treatment of low-income families in the United States since 1977 has been the development and expansion of tax provisions targeted to low-income taxpayers that are ‘refundable’ the Treasury pays out the value of the credit regardless of whether the taxpayer otherwise has positive tax liability. The most important of these is the earned income tax credit, though in recent years, a portion of the child credit has also been made refundable. Refundable credits can result in negative average tax rates for working poor families with children (Tinker and Summer, 2000).

The unit of taxation in most countries around the world is the individual, not the family as is the case in the United States. Most policymakers (including those in the United Kingdom), however, believe that it is essential to target tax benefits on the basis of family income, since it is widely believed that families pool resources when making economic decisions. UK tax authorities meet this goal by having taxpayers claim eligibility by submitting a form to the tax authorities during the year, while the claim is recalculated at the end of the year based on family income. The UK experience shows that it is possible to have a credit with family-based eligibility in a tax system where individuals are the unit of taxation (Pradeep, 2011).

2.3.9 Taxation and Poverty Alleviation in Tanzania

In order to be able to find enough resources to ensure public services, such as education and health for all, poor countries need to raise more tax, and raise tax in ways that are progressive and fair. Tax policy in developing countries has been heavily influenced by the IMF and national elites. This has had a negative impact in many cases, with a focus on indirect regressive taxation like VAT, and extensive tax incentives for companies. There is an urgent need for poor country governments to achieve an increase in progressive and redistributive taxes (REPOA, 2008).

Tax policy can have a huge impact on inequality and poverty reduction, either positively or negatively, depending on what tax policies a country decides to implement. Taxation is also often at the heart of the social contract between citizens and their government, and progressive taxation is central to creating strong, democratic, and effective states. As a percentage of GDP, rich countries collect in many cases more than twice as much public revenue (including taxes) as developing countries. In sub-Saharan Africa, the average is 18 per cent of GDP compared to 38 per cent in western European countries (USAID, 2007).

Developing countries tax and regulation policies have often been imposed, or at least strongly recommended, by the International Monetary Fund (IMF) and other international financial institutions (IFIs) as a condition of their financial support. This reduces the capacity of these nations to openly decide between different policy options, as well as their capacity to control and reduce capital flight and tax dodging. Historically, the IMF have consistently favored economic efficiency and short-term collection goals over other objectives, often promoting taxes that are easiest to collect, with the lowest political costs, and that least affect the interests of companies and the rich. Such tax policies are not necessarily the most suitable for developing countries. However, recent papers from the IMF show promising signs that this approach may be changing and that be ready to take a more progressive stance on taxation policy (Abelson, 2012).

One particularly noticeable feature of tax reforms in the developing world over the last three decades has been the emphasis on indirect taxes, in particular VAT (value added tax) on consumption. Taxes on consumption (mainly VAT) have generally become the main source of tax revenue for developing countries and economies in transition. In Africa and the Asia Pacific region, indirect taxes grew from 4.6 per cent of GDP in 1990 to 5.4 per cent in 2002, while in Latin America and the Caribbean they increased from

4.1 per cent to 8.8 per cent (Abelson, 2012).

For reasons linked to ‘economic efficiency, VAT was the preferred choice of international reformers. The assumption was that VAT would create the opportunity to broaden the tax base, reaching all goods in the formal sector without distorting productive processes (Mullins, 2004).

One clear part of this approach was abandoning the previous IMF doctrine that, by making the rich pay more than the poor, tax itself could be used to reduce inequalities. In fact the opposite is often the case. This is because the poor consume more of their income than the rich, who have savings. This makes VAT and other consumption taxes often regressive, hitting the poorest hardest (REPOA, 2008).

Instead the IMF promoted VAT and other consumption taxes, believing that wealth redistribution would occur mainly through public spending, paid for by tax revenue. This stands in contrast to all developed nations, where tax collection plays a direct and key role in tackling inequality by ensuring the richest sections of society pay more tax than the poorest (Abelson, 2012).

There has been an attempt in many countries to exempt some basic goods from VAT that are used mainly by the poor, such as soap or food. Often VAT exemptions have also been made on agricultural products where the rural sector is often very important (Emezi, 2003).

2.4 Empirical Literature Review

This section gives empirical literature review. The section presents the relationship between tax collection and poverty alleviation. The last part of the chapter gives strategies that can improve tax collection and poverty reduction.

2.4.1 Tax Collection and Poverty Alleviation

Pitt and Shahidur (2012) conduct a study on tax collection and poverty alleviation. The study found that, tax management is strongly related to poverty alleviation. The study however concluded that both empirical and statistical evidences on the impact of tax management on the poverty alleviation of the state despite the relationship between tax management and the poverty alleviation are positive (Emezi, 2003). The management of the state government should work very hard to improve the effort of tax management in the state in order to increase the volume of proceeds accruable from tax, they should strictly adopt and follow the requirements of tax management as stipulated by its policies instead of discriminating and favoring those with connections to those in government (Johnson and Rogaly, 2011).. The government should also look at the laws currently in use and think of making amendment where necessary some of the laws that are more or less important based on the current trend of information and communication technology (Rodrik, 2010).

Tax reform has been promoted by the International Financial Institutions (IFIs) as an important component of economic policy reform in developing countries (LDCs) (Dollery, 2005). This typically includes a shift from trade taxes to domestic sales taxes, the rationalisation of taxes (reducing the number and level of rates), and measures to reduce budget deficits and raise tax/GDP ratios (Caulfield, 2000). Poverty and/or inequality considerations have received little if any attention in LDC tax reforms. Partly this is because of the belief that few taxes are actually paid by the poor, and partly because of the belief that the tax system does not provide the best instruments to target the poor. The purpose of this study is to assess these beliefs by reviewing analytical methods for and evidence on the effects of tax reform on the poor (Zaman, 2000).

There are few taxes for which the poor are directly liable, the main exceptions being commodity taxes (excises, and some sales taxes unless basic necessities are zero-rated) and certain levies (such as local poll taxes) (Tinker and Summer, 2000). However, the poor may be indirectly liable and a full analysis of the effects of taxes on the poor must address the difficult issue of tax incidence. Even where the poor are potentially liable, most evidence suggests that taxes are not regressive, i.e. the poor face a proportionately lower burden than the nonpoor. While public expenditures are generally a better instrument for targeting the poor, the tax system can contribute by zero-rating or even subsidising commodities consumed, or activities engaged in, by the poor rather than the rich. As they involve a cost, it is a moot point whether subsidies are instruments of expenditure or tax policy (Pradeep, 2011).

2.4.2 Contribution of Tax Reform on Poverty Deduction

The answer to this question is 'yes'. Existing evidence points to examples (even in tax systems that have undergone reforms) of taxes which either distort behaviour or adversely affect the poor or both, reforming these taxes can help to facilitate growth and reduce poverty (Caulfield, 2000). Most export taxes seem to fall into this category. However in countries that rely heavily on export revenues to finance expenditures it will be important to ensure that revenue losses are avoided. If not, the adverse effects of the inflation tax on the poor will ensue. Equally important is the type of tax which replaces export revenues. If this is simply achieved by raising taxes which are regressive (such as some excises) on goods in inelastic demand, it may simply substitute adverse effects on one poor group to benefit another. Alternatively, if revenues are increased from progressive taxes, care must be taken not to distort incentives such that growth objectives are undermined (Robert, 2011).

In general, the role of tax reforms in Poverty Reduction Strategy Papers (PRSPs) should depend on how effectively poverty can be targeted by social expenditures. Where this is effective, it may be best to restrict tax policy to making the tax system no more than mildly progressive, but maximise its administrative and economic efficiency. In these cases, approximate tax neutrality is probably a reasonable policy (Johnson and Rogaly, 2011).

Over the longer term LDCs will have to raise their tax/GDP ratios if increases in poverty-reducing expenditures are to be financed from domestic rather than aid resources. This will require careful thought concerning which taxes should provide the additional resources, and this will vary from country to country (Tinker and Summer, 2000). However, it seems that broad-based sales taxes such as VAT are not generally regressive in most LDCs, in part because of the use of exemptions and two or three tax rates. It is generally not desirable to make these taxes strongly progressive, but they can be designed to avoid hurting the poorest (Johnson and Rogaly, 2011). With reforms to regressive excises and tariffs, improvements in tax administration over time, and a readiness to expand income taxation as practicalities allow, tax reforms should be capable of delivering increasing revenues without adversely affecting the poorest. Finding ways of taxing richer producers in agriculture other than through export taxes (which seems to hurt poor farmers more) is one challenge for future tax reform. Greater use of rural property taxation may be an option that avoids excessive distortions, but this has proved politically difficult to implement in the past (Pradeep, 2011).

2.4.2 Strategies that can Improve Tax Collection and Poverty Reduction

There is a number of concluding recommendations to enhance the pro-poor potential of tax reform, so that the burden on the poor is reduced or, at least, not increased. While the general principle from standard theory for commodity taxes (sales and trade) is to levy a uniform rate (tax neutrality), have argued that there good reason to deviate from this principle in LDCs. The first three recommendations refer to such deviations, the remainder are more general (Zaman, 2000).

Commodity taxes, both on sales and trade, should have few rates with a low dispersion. A simple sales tax is more appropriate than a complex VAT, and excises should be levied on an ad valorem rather than fixed charge basis. Tax rates should be higher on goods with inelastic demand as factors are not fixed, some sectors cannot be taxed directly and the range of tax instruments is limited (Tinker and Summer, 2000).

Commodity taxes can be made pro-poor by ensuring zero rates on goods that are consumed predominantly by the poor rather than the rich, and on activities that are engaged in predominantly by the poor. As the poor predominate in the informal sector, one would not tax informal sector activities, or complementary activities. Similar arguments apply to subsistence agriculture (Robert, 2011).

A strong case can be made to subsidise the price of commodities that are consumed by the poor but not by the rich (e.g. kerosene, some staple foods). While there are well known problems of targeting subsidies accurately, the benefits to the poor are likely to outweigh the possibility that some of the non-poor will benefit. This is the only recommendation that differs from standard IFI fiscal policy recommendations (Johnson and Rogaly, 2011).

Reducing the dispersion and average level of tariff rates is pro-poor, largely because tariff reductions lower taxes on intermediate inputs and reduce the effective taxation of agriculture. A more simple tax structure (fewer and lower rates) contributes to collection efficiency and economic efficiency (Caulfield, 2000). Economic efficiency is greater because relative price distortions are reduced. Collection is more efficient because simple taxes are easier to administer and the incentives to evade are less. Consequently, simplification of tax structures usually increases revenue. A relatively simple income tax is progressive. The threshold exemption is in effect a lump-sum transfer that provides for progression, while having few tax rates reduces the disincentive effects. However, income taxes are not incident on the poor, and are thus not a core element of a pro-poor tax reform strategy (Abelson, 2012).

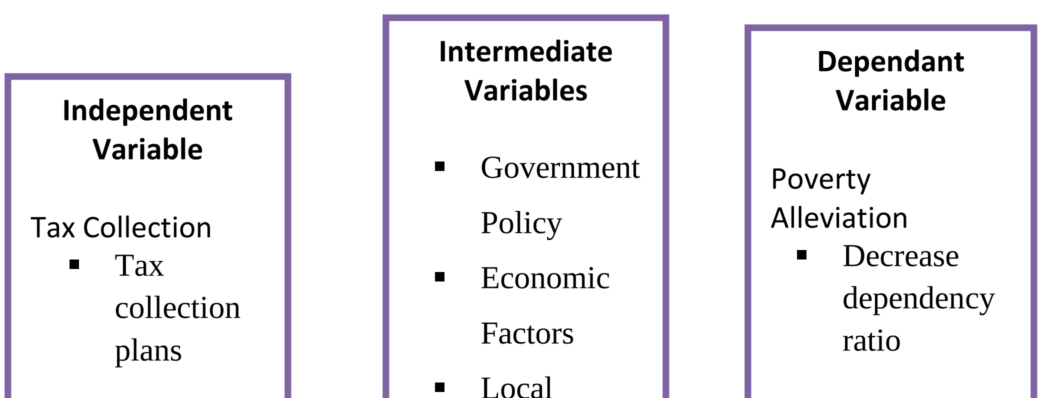
2.5 Research Gap

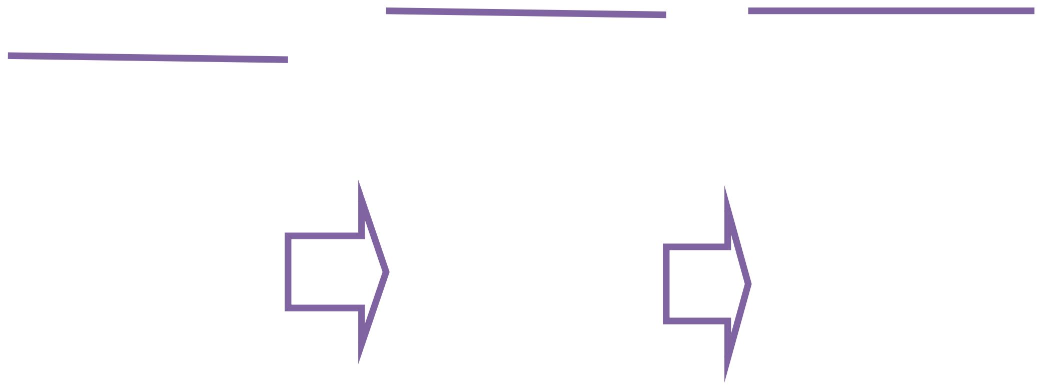
A good number of studies has been done concerning tax collection practices. Also majority of the study are from abroad, but empirical evidence revealed that, most of the study fail to identify techniques used in tax collection. The study therefore intended to investigate tax collection practices in Kinondoni Municipality. Techniques used in tax collection were identified

2.6 Conceptual Framework

The study assumes that there are independent, intermediate and dependant variables. Independent variable influences the occurrence of dependent variable. Independent variable is tax collection. Tax collection involves tax collection plans, tax officials and sources of revenue. Also, the study assumes that, intermediate variables cause the occurrence of depend variable. Dependant variable include, government policy, Local Government finance and accounting regulations, economic and political factors. Moreover, the study assumes that dependent variable of the study is poverty alleviation. This is characterized by low dependency ratio, improved welfare and low economic gap. These assumptions are summarized in Figure 2.1

Figure 2. 1: Conceptual Framework





Source: Researcher Own Construct, 2014.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

The general objective of this chapter is to provide the description of the methods that were applied in carrying out the research study, how data were collected and analyzed as well as the presentation of the data. The chapter was organized under the following sections: research design, study area, sample size, study population, sampling techniques, data collection methods, data analysis and presentation as well as validity and reliability issues.

3.2 Research Design

Research design is well understood as a logic plan of how to conduct a research (Kothari, 2004). This study used both a qualitative and quantitative research approaches. Both approaches were used so as to complement each other and overcome the weaknesses of a single design, therefore enhance validity.

Qualitative research approach refers to all non-numeric data or data that have not been quantified and can be a product of all research strategies (Saunders and Thornhill, 2009). While Quantitative approach involves collection of quantifiable data which are normally in-terms of numbers, tables, charts and figures to mention a few. It is the approach which produces findings arrived at by means of statistical procedures or other means of quantification. One disadvantage of quantitative research is that the more structured data collecting approach may cause stress to the participants, thus not showing an accurate reflection of the true results, this disadvantage was therefore be overcome by using qualitative data collection which allows much flexibility to participants.

Therefore, a case study research design was used in this study because the researcher intends to gain a deep and thorough understanding of the phenomena and because of its flexibility of the data collection methods. A case study design was used because participants come from a single case, also an experimental study design is not appropriate because there is no random assignment of participants into control and treatment groups. Also case study is mostly associated to qualitative research method.

3.3 Area of the Study

The Study was conducted at Kinondoni Municipality. The area is chosen because it’s familiar the researcher, relevant according to the nature of the study. Moreover, Kinondoni municipal is among the largest tax collector municipals in Tanzania (REPOA, 2012).

3.4 Population of the Study

This is the totality of objects under investigation (Kamuzora and Adam, 2008). For the purpose of the study, all tax payers and tax officials from Kinondoni Municipal constituted a population of the study.

3.5 The Sample Size

Sample size refers to exact numbers of items (respondents) selected from a population to constitute a sample (Kamuzora and Adam, 2008). The sample size of the study comprised of 120 respondents. This contained 15 auditors and 30 revenue collector. Moreover, 65 tax payers and 10 management officials were involved. The sample includes tax officials, tax payers and management as illustrated in Table 3.1

Table 3. 1: Sample Distribution Table

Members	**Number**	**Percentage (%)**
Management	10	8.33
Auditors	15	12.5
Revenue Collectors	30	25.0
Tax Payers	65	54.2

Total	**120**	**100.0**

Source: Researcher Design, 2014.

3.6 Sampling Techniques

In selecting the sample, tax officials were interviewed together with tax payers conducting their activity in Kinondoni. The study made of purposive sampling. Purposive sampling was base on researcher's reasonable judgement that the selected sample gives reliable information helpful for this research. According to Saunders et al (2000), purposive or judgement allows the researcher to make a choice of cases which according to his/her own view/opinion or judgement that give information which is in line with objectives stated. Purposive sampling was used because some tax officials were not available at the time of data collection.

3.7 Data Type

In order to get reliable data, the study used both primary and secondary data sources of information. From primary data, several data collection techniques namely interviews and questionnaire were employed. Secondary data were collected through, library search from published materials and internet or websites.

3.7.1 Primary Data

The primary data refers to the information which is collected afresh and for the first time, and thus happen to be original in character. They are named primary because they are unsullied and have not been manipulated by any other person (Saunders and Thornhill, 2009). Such data provides by the subject in the sample through the scheduled interactions by suing well preferred tools. Various tools are used to obtain the primary data through schedules (Kothari, 2004). The study used primary data in order to obtain views of the revenue collectors and tax payers.

3.7.2 Secondary Data

The data were obtained from literature sources or data by other people for some other purpose. Secondary data were used to supplement primary data in all objectives of the study. The data provide secondary hand information and include both raw data and published ones. Some of data collected and stored by organization included details on the payroll, income statement, and copies of letters and minutes of meetings, newspaper, journals and textbooks (Saunders et al 2000). According to Kothari (2004), Secondary data means data that has already been collected and analysed by someone else.

3.8 Data Collection Methods

The research used two methods of data collection, both the primary and the secondary data collection methods. For the primary data collection, the instrument used includes questionnaires and interviews. Secondary data were obtained through text books, journals, research and other documents.

3.8.1 Questionnaire

The researcher prepared questionnaire, structured and unstructured questionnaires, both types were used so as to avoid the weakness of one type. Questionnaires were used in data collection, since they are very effective in collecting quantitative data, questionnaire is attached as appendix I. Also the questionnaires enable the researcher to collect data from a relatively large sample. This method is chosen because wide data can be obtained and it limits bias on the side of the researcher. However, it also has disadvantages like low response rate, misunderstanding of some questions, no opportunity to ask further questions by the researcher, which are challenges to validity. The questionnaires were distributed and served to 120 respondents which include 10 people from the Kinondoni Municipal Management, 15 Auditors from the Municipality, 30 Revenue Collectors and 65 Tax Payers. This technique is chosen because it does exerting pressure to the respondents, because respondents take his/ he time to fill the questionnaire

3.8.2 Interview

This is verbal interaction between the researcher and respondent (Kothari, 2004). The study used individual-intercept interviewing in collecting data from the respondents. The individual intercept interviewing allow the researcher to reach known people in a short period of time. Moreover the method is further said to hold the respondents' attention (Kothari, 2004) and the researcher was available to clarify different questions that are not well be understood by the respondents. The researcher prepared the interview guide questions in connection to research questions, therefore the researcher have the opportunity to restructure questions so as to reach the research objectives, Respondents were asked to identify methods used in tax collection, to examine the contribution of tax on poverty alleviation and to find out strategies that can improve tax collection, the interview questions were arranged and conducted to 10 managers from the Kinondoni Municipal Management. The instrument was used for managers because the technique is more effective for executive respondents.

3.8.3 Documentary Review

Secondary data collection involves, Documentary review. A number of documents including official documents from Kinondoni Municipal, reports and seminar papers in relation with the problem will be reviewed to supplement the primary data collected by the researcher. The method helps the researcher to understand the magnitude of the problem. Documents are important in research because bridges the information obtained from data collected through the use of other research methods such as questionnaires and interviews. Documentary review guide was used as an instrument during data collection from different documents.

3.9 Data Analysis

Data was analyzed in accordance with the objectives of the study. Both quantitative and qualitative data were collected and processed. Qualitative data refers to data representing qualitative phenomenon, example phenomena relating to or involving quality or kind. For instance, when investigating the reasons for human behaviour (Kothari, 2004).

Preliminary analysis involved SPSS, Data were presented in descriptive and tabular form; tabulation was used in order to establish relationship between variables. In presenting the finding of the study, tabulation was done to present some of the findings. Moreover, preliminary analysis involves editing; this was dome immediately after receiving questionnaire from respondents, it involved correction of errors that might have appeared in the whole process of research writing. Coding was be done in order to ensure whether the response categories are appropriately classified and exhausted to the problem under the study and arrange data collected according to group or classes they base on the basis of their common characteristics.

Descriptive analysis involved tabulation of the findings Data processing involved editing, coding, tabulation was used as a key factor in whole process of research. This was done in the area in order to make the research be accurate and effective. Tabulation; was done so as to assemble data into concise and logical order, researcher analyzed data collected qualitatively where words were used to explain findings and quantitative analysis where the data used numbers, computation of total and percentage

3.10 Research Reliability and Validity

Reliability is concerned with consistency that repeated measure produce across time and across observers (Sounders *et al*, 2003). To maintain reliability internally, the study used may repeated sample groups as possible to reduce the chance of an abnormal sample groups skewing the results. Validity is concerned with the extent to which a test measures what it claims to measure (Saunders and Thornhill, 2009). It’s vital for a test to be valid in order for the results to be accurately applied and interpreted. Reliability and validity test of instrument was performed to all selected variables to ensure accurate and consistence of data.

To ensure validity, the data collection instrument for this study, the study involves pilot taste to 10 respondents, comments revealed from the respondent was used to trigger modification.

CHAPTER FOUR

PRESENTATION OF FINDINGS AND DISCUSSION

4.1 Introduction

The first part of the chapter provides background characteristics of respondents in terms of age, sex and level of education. The second section of the chapter identifies methods used in tax collection whereas contribution of tax on poverty alleviation is discussed in section three. The last section of the chapter provides strategies that can improve tax collection

4.2 Respondents Profile

The study examine background characteristic of respondents in order to identify their influence and to measure the capability of the respondents. Respondents profile was asked in terms of their age, sex, level of education and experience in paying tax.

4.2.1 Respondents Distribution by Age

The study found age of the respondents contains different composition of all age groups as illustrated in Table 4.1. Its found majority of the respondents (52.4%) were aged between 18 to 24 years. The study found significant number of the respondents (31.7%) was aged between 25 to 34 years. The results also show that only a tiny portion (6.3%) was between 35 to 44 years old. Moreover, the study found small number of the respondents (6.3%) and (3.2%) were aged between 45 to 55 and above 55 respectively. This indicates the study involves all age groups, this bring a sense of reliability. Because the study involve all age groups

Table 4. 1: Age Distribution of the Respondents

Option		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	18-24	33	52.4	52.4	52.4
	25-34	20	31.7	31.7	84.1
	35-44	4	6.3	6.3	90.5
	45-55	4	6.3	6.3	96.8
	55+	2	3.2	3.2	100.0
	Total	63	100.0	100.0	

Source: Field Data, (2014)

4.2.2 Respondents Distribution by Gender

The study examines gender of the respondents. The study contacted both males and females, it was found the large number of the respondents were males. The study found out of 40 respondents, (63.5%) were males whereas minority of the respondents (40.8%) was female. Table 4.2 illustrates gender distribution of the respondents. This implies that the study was gender balanced. This is due to fact that the study involves all gender

Table 4. 2: Gender Mix of the Respondents

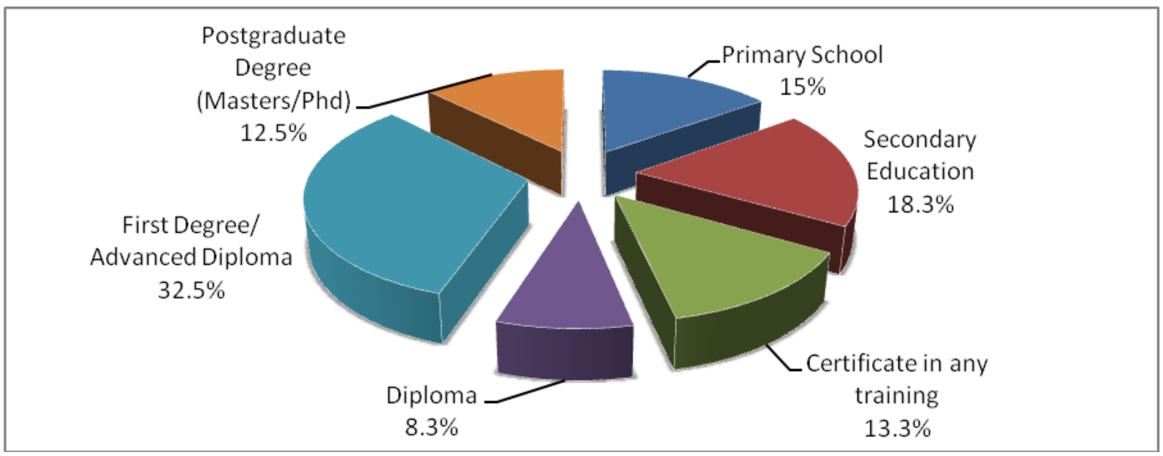
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Male	40	63.5	63.5	63.5
	Female	23	36.5	36.5	100.0
	Total	63	100.0	100.0	

Source: Field Data, (2014)

4.2.3 Respondents Distribution by Level of Education

The study examines level of education of the respondents. The study found majority of the respondents (66.6%) had tertiary level of education this include diploma, first degree/advanced diploma, postgraduate diploma and masters. Also, the study found out of 63 respondents, 9 (14.2%) had primary education whereas (19.1%) of the respondents had secondary education. Figure 4.1 presents respondents distribution by level of education. It’s observed that, the large portion of the respondents (32.5%) identified had first degree/advanced diploma.

Figure 4. 1: Level of Education Attained by Respondents

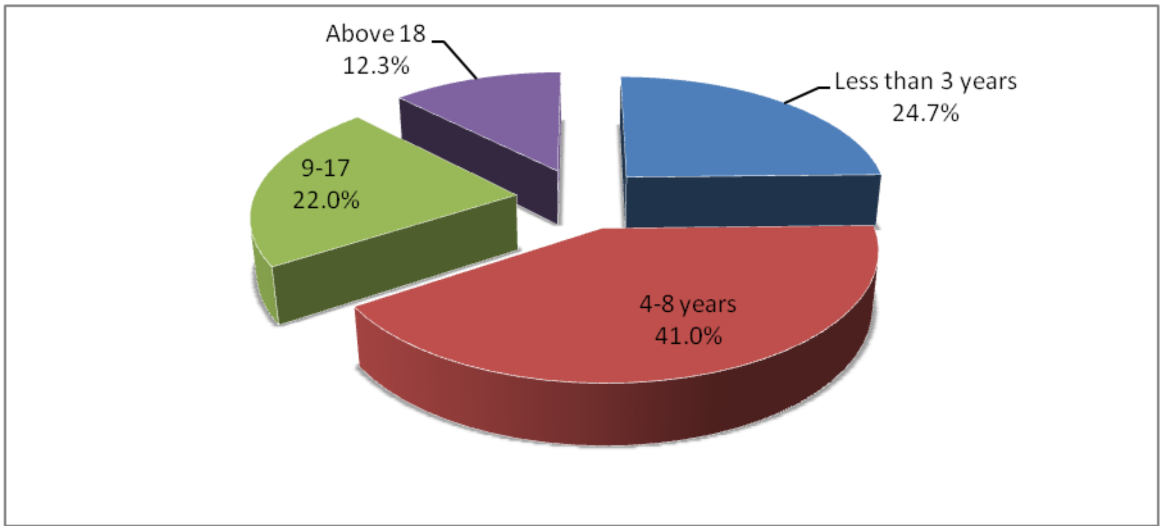


Source: Field Date, (2014).

4.2.4 Experiences on Paying Tax

Respondents were asked to state their experiences on paying tax. Respondents were asked to choose from the range of experiences in years. The study found that a large number of the respondents had the experience of paying tax between 4 to 8 years (41.0%). This indicates sufficient experience on paying tax developed a good knowledge, hence increase tax compliance.

Figure 4. 2: Experiences on Paying Tax



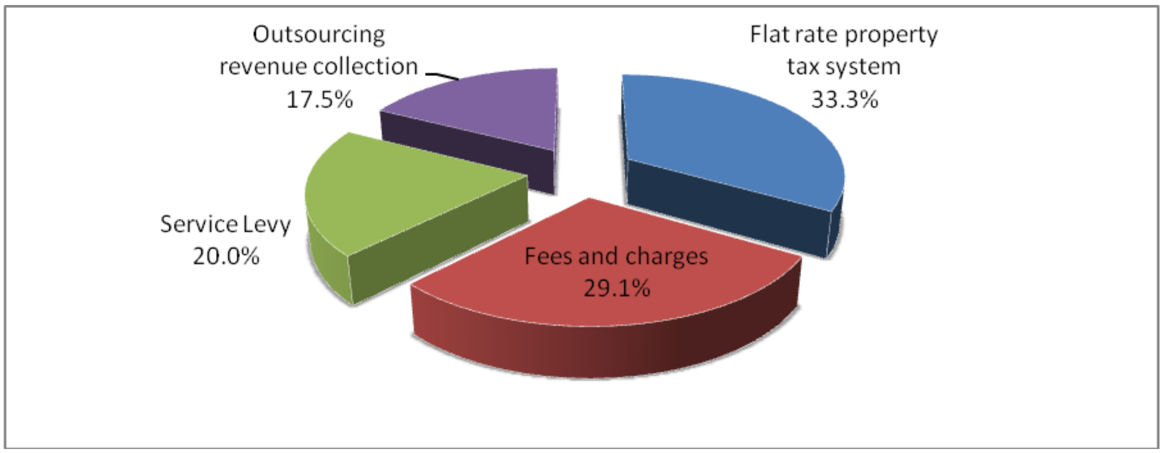
Source: Field Data, 2014

Table 4.2 shows that significant number of the respondents (24.7%) had experience of less than 3 year, the study found the large number of the respondents (41%) had experience between 4-8 years. Also, the study found important number of the respondents (22%) had experience between 9-17 years and (12.3%) had experience above 18 years. The highest numbers of Respondents has experience of between 4-8 years. The lowest numbers of Respondents were observed to those with experiences above 18 years.

4.3 Methods Used to Collect Revenue

The study was interested to determining different methods used in collection tax revenue. Respondents were asked to identify methods used to collect revenues; in their reply the study found majority of the respondents (61.7%) identified Flat rate property tax system as the major method for collection of tax revenue, as shown in Figure 4.4

Figure 4. 3: Techniques Used to Collect Revenue



Source: Field Data, (2014)

Figure 4.3 offers methods used to collect Revenue. The study found significant number of the respondents (33.3%) identified flat rate property tax system as a major technique in collection of tax revenue. This is similar to the study made by REPOA, (2012). The study found that, the municipal introducing a flat rate property tax system that in order to differentiate between properties at different locations such as trading centres, surveyed areas, non-surveyed areas. In order to address potential political and poverty reduction concerns that taxing much broadened citizenry, the rates could be set at amounts that are sufficiently low for all households in the district to afford.

Also the study found an average number of the respondents (20%) and (17.5%) grasps service levy and outsourcing revenue collection respectively as also the main technique in revenue collections. This relate to the study made by Robert, (2011) the study found outsourcing revenue collection by LGAs is not an alien phenomenon in Tanzania. Several LGAs have at times outsourced administration of certain revenue sources including property rate (flat), market fees, forestry levies, livestock auction and abattoir fees, bus stand fees and parking fees. Outsourcing has been to a range of agents including market associations, cooperatives and private firms especially those dealing with debt management. In assessing the success of outsourcing, it has been argued that although outsourcing does not offer a quick-fix in terms of increasing revenue and easing administration, in general, revenue from the outsourced sources did actually increase with significant improvement in predictability as well.

Moreover the study found significant number of respondents (29.1%) suggested Fees and charges as one of the major revenue collection technique. This is similar to the study made by Rodrik, (2010), the study found municipal has put in place an elaborate fees and charges structure, it is advisable on efficiency grounds to consider the possibility of outsourcing the administration of some of the fees and charges. This could work out very well in remote villages where a resident contractor could cheaply collect municipal fees and charges, retain an agreed percentage of the collections and remit the balance to the Council on a periodic basis.

4.4 The Contributions of Tax on Poverty Alleviation

The study examines the contributions of tax on poverty alleviation. Respondents were asked to identify the contributions of tax on poverty alleviation. The study found tax collection play significant role on availability of social services, as presented in Table

4.3

Table 4. 3: The Contributions of Tax on Poverty Alleviation

Option		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Availability of Social Services	39	61.9	61.9	61.9
	Promote Equality	20	31.7	31.7	93.6
	Financial Support	4	6.3	6.3	100.0
	Total	63	100.0	100.0	

Source: Field Data, (2014)

Table 4.3 presents the contributions of tax on poverty alleviation. The study found majority of the respondents (61.9%) identified tax collection facilitates availability of social services. This is similar to the study made by Pradeep, (2011), the study found effective tax collection facilitate the availability of social services. Tax collection ensures public services, such as education and health for all, poor countries need to raise more tax, and raise tax in ways that are progressive and fair.

Also, the study found significant number of respondents (31.7%) suggested that tax collection promote equity. Tax policy can have a huge impact on inequality and poverty reduction, either positively or negatively, depending on what tax policies a country decides to implement. Taxation is also often at the heart of the social contract between citizens and their government, and progressive taxation is central to creating strong, democratic, and effective states.

Moreover, the study found small number of the respondents (6.3%) identified that tax collection facilitates financial support to poor people. Local Governments are capable of providing public services, mobilizing community resources, stimulating private investments, expanding rural-urban linkages, adopting national development to Local conditions and investing in Local infrastructure (Zaman, 2000).They can also be a crucial source of empowerment by offering opportunities for long neglected citizens to participate in the Local decision making processes. They hence act as a voice for Local needs at higher levels and providing adapted support for Local people's initiatives.

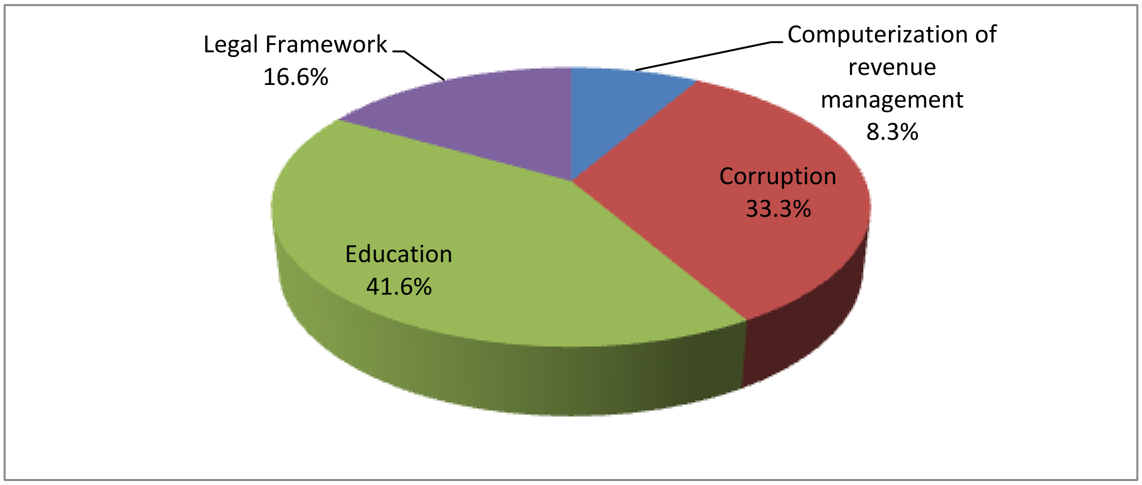
4.5 Challenges of Tax Collection at Kinondoni

Furthermore, the study was interested on identifying the challenges facing tax collection. Respondents were asked to recognize these challenges during revenue collection in the municipal, in their replay the study found majority of the respondents (66.6%), identified lack of tax education as the major challenge during tax collection. This is similar to the study made by Abelson, (2012), the study found the major challenge facing tax collection is lack of awareness among tax payers. Tax payer lack tax education this impede tax collection practices

The study found significant number of the respondents (33.3%) identified that that corruption has been the challenge for the district in collection of its revenues. Also the study found smaller number of respondents (8.3%) revealed that computerization of revenue management has been the challenge for the municipal management since there are no proper records of tax collections. Furthermore the study found important number of the respondents (16.6%) argued that the existing proper legal framework for revenue collection is not that capable of enforcement. Moreover a larger number of respondents (41.6%) identified corruption to be the main challenge Education and technical assistance lay the groundwork for voluntary compliance. They are essential to overcome barriers of ignorance or inability that otherwise would prevent compliance. This is similar to the study made by Caulfield, (2000), the study found Education and technical assistance make it easier and more possible for taxpayers to comply by providing information about tax obligations and how to meet them, and by providing assistance to help taxpayers comply, particularly in the early stages of a new tax or rate.

The public can be a powerful ally in promoting tax compliance by supporting the creation of a tax ethics culture. The public can also serve as watchdogs that alert officials to noncompliance. To foster this, the public should be educated to conceive the act of paying tax as being ones contribution to public goods. In public goods studies, willingness to cooperate has been found to depend on various variables, including effective communication between actors, group identity, payoffs, or identified ability of contributions.

Figure 4. 4: Challenges during Tax Collection



Source: Field Data, (2014)

Figure 4.4 illustrates challenges during tax collection. The study found the large number of the respondents (42%) (33%) identified corruption and education to the main challenges of tax collection.

4.6 Strategies that can Improve Tax Collection

Furthermore, the study explores perception on various strategies that could be used to improve tax collection methods. The finding revealed that majority (50.8%) believed that tax education is still a major strategy to overcome tax collection challenges.

Table 4. 4: Strategies that can Improve Tax Collection

Option	Frequency	Percent	Valid Percent	Cumulative Percent

Valid	Tax education	32	50.8	50.8	50.8
	Train Tax Officials	26	41.3	41.3	92.1
	Computerizing Tax system	5	7.9	7.9	100.0
	Total	63	100.0	100.0	

Source: Field Data, (2014)

Table 4.4 presents strategies that can improve tax collection. The study found there are different strategies that can be used to improve tax collection. The study found significant number of the respondents (41.3%) identified there is a need to provide training to tax officials. This relate to the study conducted by Emezi, (2003), the study found that training tax officials is an effective strategies that can overcome challenge facing tax collection. Well trained tax officials normally work with greater efficiency and maximum creativity.

The study found small number of the respondents (7.9%) revealed that there is a need to computerize tax collection system. This will improve efficient of tax collection, consequent will increase tax revenue. The study found majority of the respondents (50.8%) identified that there is a need to provide tax education. This is similar to study conducted by Rodrik, (2010), the study found that municipal authorities should provide tax education to tax payer in order to overcome the challenge during tax collection.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presents summary of the study, conclusion and recommendations of the study. The first part of the chapter discusses summary while conclusion and recommendations are explained in section two and section three respectively. The last part of the chapter put down areas for further studies.

5.2 Summary of the Major Findings

The study found the study found majority of the respondents (61.7%) identified Flat rate property tax system as the major method for collection of tax revenue. Also, the study found tax collection play significant role on availability of social services. Moreover, the study found majority of the respondents (50.8%) identified the provision of tax education will improve tax collection.

The study concluded that there are various methods used in collecting tax. These involve outsourcing revenue collection and flat rate property tax system. Also, the study concluded that Tax collection play significance role in alleviating poverty. Tax collection facilities, availability of social services, promote equality and financial support. Finally, the study concluded that to improve tax collection, there is a need to provide education to tax payer, train tax collectors and computerize tax collection system. The study recommended that, there is a need to train revenue collectors, the authorities should be further sensitized about their role. For example through seminars, and others should be given scholarships by the municipal to go for further studies and acquire more skills. This will help to check on inefficiency due to inadequate education.

5.3 Conclusion

The study concluded that there are various methods used in collecting tax. These involve outsourcing revenue collection and flat rate property tax system. Also, the study concluded that Tax collection play significance role in alleviating poverty. Tax collection facilities, availability of social services, promote equality and financial support. Finally, the study concluded that to improve tax collection, there is a need to provide education to tax payer, train tax collectors and computerize tax collection system.

The study depicted that the Kinondoni municipal faced various challenges as far as tax collections was concerned, ranging from social, economic as well as political spheres of life. However, the study showed that such challenges were inherent in the political setup of the Local Governments and were deep rooted in all the social and economic structures of the municipals. The research findings showed that even though most of the challenges were inherent in the structures of the Local Government, they were not beyond control. It showed that low or poor tax collections within the municipal could be improved by implementing various policies, such as; motivate the tax authorities, check on political interference, sensitizing communities, privatization of revenue collection services. Significantly, the findings depicted the budget as an important financial as well as management tool as far as revenue collection and service delivery were concerned. The research findings showed that the budget along with reports and records are key tools in the whole system of tax assessment, collection as well as administration.

5.4 Recommendations

In line with the findings of this study which reveals that tax management has significant impact on the poverty alleviation, the following recommendations are offered to strengthen and improve tax management.

Training revenue collectors, the authorities should be further sensitized about their role.

For example through seminars, and others should be given scholarships by the municipal to go for further studies and acquire more skills. This will help to check on inefficiency due to inadequate education.

The executive of Kinondoni Municipal should work very hard to improve the effort of tax management in the municipal in order to increase the volume of proceeds accruable from tax. It can do that through creating a unit or section that exclusively deals with tax management transactions and follow it up vigorously with series of investigations. Also, the government should encourage the management of the revenue board to engage in greater business of tax management. This has the potentials of improving earnings and motivation.

The Management of Kinondoni Municipal should increase its commitments into tax management business to improve earnings from the proceeds of tax especially direct assessment. The government can set up a committee to carry out a census in the municipal in order to come up with the total number of its citizens and those eligible to pay tax. It can undertake house to house, shop to shop verification in relation to the business undertaking by any eligible tax payer. This will solve some if not all the problem of abandonment or ignoring the income from the source even if other sources fill the gap for the estimate.

The Management of Kinondoni Municipal should strictly adopt and follow the requirements of tax management as stipulated by its policies instead of discriminating and favoring those with connections to government executives. The measures if taken and adopted will assist the revenue board to generate more revenue which in turn will be among others used in increasing the level. if adopted will reduce if not eliminate the problems of default of non payment or presenting annual earnings of a tax payer (especially direct assessment) before the board.

The Management of Kinondoni Municipal should also collaborate with other States Revenue Boards organizing workshops and seminars on tax management activities in the country in order to create awareness on tax management issues. This will increase the number of participants in tax management to increase income derivable from tax in Kinondoni Municipal and its general economic growth will be improved

Motivating revenue collectors, the tax collectors should be highly motivated. For example, they should be given moral support from the authorities. Motivation should also be in form of incentives like high salaries, high wages adequate security or protection from the would be threats to the lives of the tax collectors.

Assessment /Enumeration, there is need for proper tax assessment. This will enable the taxpayers to know the amount of revenue they are supposed to contribute. This may involve analyzing the various tax bases within the Local Government.

Sensitizing the entire community, the masses should be sensitized about the benefits of paying taxes. For example, they should be enlightened that their contribution in form of taxes leads to effective service delivery.

5.5 Recommendations for Further Studies

The future researchers should use other statistical research methods such as the Chi-square regression analysis to prove whether there is a strong relationship between revenue collection and service delivery as the researcher reflected in his findings. also, impending studies should examine other factors that affect Local revenue collection as well as service delivery should be put to research for ascertainment of their effects.

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APPENDICES

Appendix 1: Questionnaire

My name is **Brazio Simfukwe.** I do research on "**Tax Collection Practices in Tanzania; A Case Kinondoni Municipality**". Your participation on answering this question could make my research be effective and complete. Your name is not needed in this research. Therefore by so doing I request your attention to read and answer these question effectively.

Please I request your attention and respond to the questions bellow so as to facilitate my research.

Please put (√) mark in the correct answer and fill the blanks

1. Age
   a) 18-24 [ ]
   b) 25-34 [ ]
   c) 35-44 [ ]

d) 45-55 [ ]

e) 55+ [ ]

2. Gender
   a) Male [ ]
   b) Female [ ]

3. Level of education
   a) Primary School [ ]
   b) Secondary School [ ]
   c) Certificate [ ]
   d) Diploma [ ]
   e) First degree [ ]
   f) Post graduate (eg, Masters and PhD) [ ]

4. Experience on tax payment
   a) Less tan 3 years [ ]
   b) 4 to 8 years [ ]
   c) 9 to 18 years [ ]
   d) Above 19 years [ ]

5. What are methods used to collect tax

…………………………………………………………………………………………
…………………………………………………………………………………………
…………………………………………………………………………………………

6. What is the contributions of tax on poverty alleviation
   a) Availability of Social Services [ ]
   b) Promote Equality [ ]
   c) Financial Support [ ]

7. What are other contributions of tax on poverty alleviation? Please mention
   ………………………………………………………………………………………

…………………………………………………………………………………………
…………………………………………………………………………………………

8. What are the Challenges during tax collection?
   a) Corruption
   b) Lack of education
   c) Legal framework

9. What are other challenges during tax collection?

   …………………………………………………………………………………………
   …………………………………………………………………………………………
   …………………………………………………………………………………………

10. What are the strategies that can improve tax collection?
    a) Tax education
    b) Train Tax Officials
    c) Computerizing Tax system

Appendix 2: Interview Guide

1. What are methods used in tax collection?

2. What are the contributions of tax on poverty alleviation?

3. What are the challenges in tax collection?